Statutory report on

**corporate governance**

according to section 107b of the Danish Financial Statements Act
- the accounting period 1 January 2018 - 31 December 2018
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Signature

- The company complies with the recommendation.
- The company partly complies with the recommendation.
- The company does not comply with the recommendation.

2 Vestas' statutory report on corporate governance 2018
This statutory report on corporate governance (hereinafter referred to as “the report”) covers the period 1 January 2018 - 31 December 2018 and is prepared pursuant to section 107b of the Danish Financial Statements Act. The report forms part of the management’s review in the annual report 2018.

Corporate governance principles
Corporate governance is defined as “the system used to manage and control a business” i.e. for “control and management” of companies through ownership, board structure, remuneration systems, company law, etc.

Furthermore, corporate governance is about which overall goals companies should pursue and how companies’ management structures and tasks are most appropriately organised and implemented.

Once a year, the Board of Directors (Board) evaluates the recommendations for corporate governance prepared by the Danish Committee on Corporate Governance.

Danish recommendations on corporate governance
Pursuant to section 107b of the Danish Financial Statements Act and clause 4.3 of “Rules for Issuers of Shares – Nasdaq Copenhagen,” listed companies must state their position to the Committee’s recommendations. This must be done using the “comply or explain” principle.

Vestas’ position with regard to each individual recommendation is described in this statutory report. It is specified in the recommendations on corporate governance that it is just as legitimate to explain a deviation from a specific recommendation as to comply with the recommendation. The key issue is to create transparency in the corporate governance matters.

Adopted by the Board of Directors of Vestas Wind Systems A/S

February 2019

“The Board is continuously vigilant of the guidelines and processes that are in place for the running of Vestas. This ensures that – at any given time – management has the necessary framework to be able to conduct business in the spirit of Vestas’ values – accountability, collaboration, and simplicity.”

Bert Nordberg
Chairman
Management structure

Vestas Wind Systems A/S is a Danish limited liability company with a two-tier management system in which the Board and the Executive Management are responsible for the management of the company's affairs. No persons hold dual membership of the Board and the Executive Management. The company is also the parent company of the Vestas Group.

The management of the company is governed by the company's Articles of association, the Danish Companies Act and other applicable Danish laws and regulations.

Shareholders

Vestas Wind Systems A/S's share capital amounts to DKK 205,696,003, and its shares are listed on Nasdaq Copenhagen under the ticker symbol VWS. Vestas has one share class and a total of 205,696,003 shares, which are 100 percent free float.

General meeting

The general meeting, consisting of the company's shareholders, is the supreme management body of Vestas Wind Systems A/S and is the supreme authority in the company and is subject to the limits laid down by EU and Danish law and the company's Articles of association.

Shareholders may exercise their right to make decisions in the company at the general meeting. The general meeting is held at least once a year. All shareholders are entitled, in compliance with a few formal requirements, to have equal access to submit proposals, attend, vote and speak at general meetings, ref. articles 4 and 6 of the Articles of association.

Board of Directors

Pursuant to the company's Articles of association, the company is managed by a Board composed of 5-10 members elected by the general meeting and a number of representatives elected by the employees.

Board members elected by the general meeting must retire at the following annual general meeting. However, such board members shall be eligible for re-election, ref. article 8(1) of the Articles of association.

Board members elected by the general meeting may be recommended for election by the shareholders or by the Board.

When proposing candidates for board membership, the Board seeks to ensure that it is possible for the general meeting to elect a continuing Board that:

- is able to act independently of special interests;
- represents a balance between continuity and renewal;
- matches the company's situation;
- is knowledgeable of the industry and has the business and financial competencies necessary to ensure that the Board can perform its duties in the best way possible; and
- reflects the competencies and experience required in order to manage a company with shares registered for trade on a stock exchange and fulfils its obligations as a listed company.

When proposing new board candidates, the Board pursues the goal of having several nationalities of both genders represented. In addition, the Board focuses on having a diverse age distribution. However, these goals must not compromise the other recruitment criteria.

Members of the Board of Directors
Bert Nordberg, Chairman
Lars Josefsson, Deputy Chairman
Carsten Bjerg
Eija Pitkänen
Henrik Andersen
Henry Sténson
Jens Hesselberg Lund
Kim Hvid Thomsen
Michael A. Lisbjerg
Peter Lindholst
Sussie Dvinge Agerbo
Torben Ballegaard Sørensen

Members of the Audit Committee
Henrik Andersen, Chairman
Carsten Bjerg
Jens Hesselberg Lund
Torben Ballegaard Sørensen

Members of the Technology & Manufacturing Committee
Lars Josefsson, Chairman
Carsten Bjerg
Eija Pitkänen
Kim Hvid Thomsen

Members of the Nomination & Compensation Committee
Bert Nordberg, Chairman
Henrik Andersen
Lars Josefsson

Members of the Executive Management
Anders Runevad, Group President & CEO
Anders Vedel, Executive Vice President & CTO
Jean-Marc Lechêne, Executive Vice President & COO
Juan Araluce, Executive Vice President & CSO
Marika Fredriksson, Executive Vice President & CFO
Duties of the Board of Directors
The Board is responsible for the overall operation of the Group and, through the independent oversight of management, accountable to shareholders for the performance of the business. They also deal with the overall and strategic management of the company, including:
- appointing the Executive Management;
- laying down guidelines for and exercising control of the work performed by the Executive Management;
- ensuring responsible organisation of the company’s business;
- defining the company’s business concept and strategy;
- ensuring satisfactory bookkeeping and financial reporting;
- ensuring the necessary procedures for risk management and internal controls; and
- ensuring that an adequate capital contingency programme is in place at all times.

In cooperation with the Executive Management, the Board establishes and approves overall policies, procedures, and controls in key areas, not least in relation to the financial reporting. This requires a well-defined organisational structure, unambiguous reporting lines, authorisation and certification procedures, and adequate segregation of duties.

Board committees
The purpose of Vestas’ board committees is to prepare decisions and recommendations for consideration and approval by the entire Board. The committees are not authorised to make independent decisions; instead they report and make recommendations to the combined Board.

Vestas has established three permanent board committees.

Audit Committee – supports the Board in assessments and controls relating to auditing, accounting policies, systems of internal controls, financial reporting, procedures for handling complaints regarding accounting and auditing, the need for an internal audit function and Vestas’ ethics and anticorruption programmes.

The Nomination & Compensation Committee – supports the Board in evaluation of the performance and achievement of the Board and Executive Management and overall staff-related topics, including assessments of remuneration.

The Technology & Manufacturing Committee – assists the Board in assessing technological matters, IPR strategy and product development plans. The committee also supports the Board in matters concerning production, monitors and evaluates the short- and long-term manufacturing footprint, evaluates sustainability performance, and gives support to forums such as Vestas’ Innovation Portfolio Council, Product Portfolio Council, and Product Operation Council.

Executive Management
The Executive Management of Vestas Wind Systems A/S is appointed by the company’s Board and among the members of the Executive Management they have appointed a Chief Executive Officer who is the manager of the day-to-day work of the Executive Management. Moreover, the Board lays down the distribution of competences among the members of the Executive Management.

The work of the Executive Management
Executive Management is responsible for the day-to-day management of the company, observing the guidelines and recommendations issued by the Board. The Executive Management is also responsible for presenting proposals for the company’s overall objectives, strategies and action plans as well as proposals for the overall operating, investment, financing and liquidity budgets to the Board.

The Executive Management monitors compliance with relevant legislation and other financial reporting regulations and provisions.

Governance principles
To the Board of Vestas Wind Systems A/S corporate governance is not just a set of rules but a constant process. Consequently, the Board continuously addresses the guidelines and processes for the overall management of the Vestas Group. This ensures that the management is at any time able to conduct its managerial tasks professionally and in due consideration of applicable law, practices, and recommendations.

The evaluation of the guidelines and processes includes a review of the company’s business model, strategy, business processes, goals, organisation, capital position, stakeholder relations, and risks as well as necessary controls.

The Board finds that clear guidelines on how to manage and communicate at Vestas help provide a true and fair view of the Group to the world. A clear and well-considered management and communication strategy is of special importance in light of the challenges Vestas faces in a market characterised by fierce competition, expected consolidation, and ever-increasing quality requirements.

Vestas’ strategy, vision and mission
Once a year, the Board arranges a strategy seminar with participation of the members of the Executive Management to discuss the strategies and future visions for the company and the Group.

Annually, the management gives a status of the strategy in the annual report – and what to expect in the coming year.

Code of Conduct
As Vestas gradually grows bigger and bigger with employees and business partners with widely different cultural backgrounds, religious beliefs and political convictions, it is becoming more and more important to have a formal set of common values.

The purpose of Vestas’ Code of Conduct is to ensure that all employees and other persons acting on behalf of Vestas know what correct Vestas behaviour is. Vestas’ Code of Conduct sets the framework for the work of supporting the principles of the UN Global Compact. Vestas will endeavour to ensure that its business partners also respect these principles.

Financial reporting risks
Based on Vestas’ financial risk management policy, the Global Finance function prepares a description of the key risks relating to financial reporting and measures taken to control such risks.

Group Finance works actively with anchoring financial risk management throughout the organisation, including ensuring systematic identification and management of all relevant risks relating to financial reporting.

As part of the financial risk assessment, Vestas’ Board and Executive Management annually assess the risk of fraud and the measures to be taken to reduce and/or eliminate such risks, including assessing any possibility of the general management overriding controls and affecting the financial reporting.

Control activities
Group Financial Compliance is responsible for the implementation, monitoring, and reporting of Vestas’ global financial processes and the internal control framework. This helps to ensure a uniform design and structure of the Group’s
The objective of the Group's control activities is to ensure financial compliance with the targets, policies, manuals, procedures, etc. defined by the Executive Management.

Furthermore, the activities must help ensure that any errors, deviations and shortcomings are prevented, discovered, and rectified.

Vestas continuously adjusts and implements global financial processes and controls for all units and functions aimed at further mitigating the risk of incorrect financial reporting.

**Information and communication**

Vestas' policies, adopted by the Board, lay down, among other things, overall requirements on financial reporting and external financial reporting in accordance with current legislation and applicable regulations.

The information systems are designed to identify, collect and communicate relevant information, reports, etc. on an ongoing basis and on all levels to facilitate an effective, reliable workflow and the performance of controls. This is done in due consideration of the confidentiality required as a listed company.

**Financial management**

In connection with financial management, it is the Group's objective to create the necessary stability to implement strategic development work while in the long term achieving a competitive return for the company's shareholders. At the same time, the Group has the objective of reducing cost of capital.

The Group's main possible methods of maintaining or changing its capital structure are:

- adjustment of the dividends level;
- share buy-backs;
- issuing of new shares;
- new borrowing;
- change of the level of funding from prepayments received; and
- credit granted by suppliers.
1. Communication and interaction by the company with its investors and other stakeholders

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<th>Recommendation</th>
<th>Vestas' comments</th>
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<tr>
<td><strong>1.1. Dialogue between company, shareholders, and other stakeholders</strong></td>
<td>To ensure an effective and ongoing dialogue with current and potential shareholders, the Board has defined an Investor Relations Communications Strategy, which is available at the corporate website. Vestas provides extensive and regular information to shareholders and other stakeholders on a separate “Investor” section at the corporate website.</td>
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1.1.1. The committee recommends that the board of directors ensure ongoing dialogue between the company and its shareholders, so that the shareholders gain relevant insight into the company and in order for the board of directors to be aware of the shareholders’ views, interests and opinions in relation to the company.

In 2018, the day-to-day communication with shareholders has mainly been handled via conference calls and email correspondence. Furthermore, Vestas has attended conferences and hosted various meetings throughout the year with the participation of members of Executive Management. On selective occasions, Vestas has furthermore arranged meetings between investors and senior management members, such as division heads.

In 2018, the dialogue with the shareholders has included:

- General meeting - In connection with Vestas’ annual general meeting in 2018, relevant information about the meeting was provided at the corporate website. Vestas invited the company’s shareholders to express their views at the annual general meeting or to pose questions before the meeting. Questions posed before the meeting were published at the corporate website together with the respective answers.

- Shareholder information - In February and August 2018, Vestas issues the half-yearly publication “Shareholder information”. An online publication in which the company’s management gives a brief presentation of the company’s state of affairs, development potential, and an overview of the financial highlights for the relevant period.

- Financial reporting/roadshow - In 2018, in connection with the disclosure of the financial results, Vestas arranged information meetings, which were audiocast live. Following the earnings calls, members of the Executive Management, together with representatives from Investor Relations participated in roadshows in which meetings were held with investors and stakeholders in Europe, Asia, and the USA.

After each roadshow, Investor Relations summarises the feedback received from investors as part of a quarterly report to the Board.
1.1.2. The committee recommends that the board of directors adopt policies on the company's relationship with its stakeholders, including shareholders and that the board of directors ensure that the interests of the shareholders are respected in accordance with company policies.

Capital Markets Day - In November, Vestas hosted a capital markets day in Copenhagen, Denmark, which was attended by more than 120 participants from the investment community and media.

Vestas' relations to its stakeholders – present and potential shareholders, business partners, employees, and the surrounding society – are anchored in the company's operating business model, vision, mission, and objectives.

Vestas seeks to develop and maintain good relations with its stakeholders, as such relations are believed to have a significant and positive impact on the company's development. The company's relationship with its stakeholders is described in Vestas' Code of Conduct which is available at the corporate website.

1.1.3. The committee recommends that the company publish quarterly reports.

Vestas discloses financial reports four times a year – one annual report and three interim financial reports. Financial reports disclosed in 2018 and the publication dates for future financial reports are available at the corporate website.

1.2. General meeting

1.2.1. The Committee recommends that in organising the company's general meeting, the board of directors plans the meeting to support active ownership.

The Board strives to plan the general meetings in a manner that encourages active ownership of shareholders.

The date for the annual general meeting was disclosed on 8 November 2017 and the convening was published on 28 February 2018.

To promote active ownership, the Board encourages all shareholders to express their views by voting at the annual general meeting.

1.2.2. The committee recommends that proxies or votes by post for the general meeting allow shareholders to consider each individual item on the agenda.

Vestas' proxy / vote by correspondence form allows shareholders to consider each individual item on the agenda.

1.3. Takeover bids

1.3.1. The committee recommends that the company set up contingency procedures in the event of takeover bids, from the time that the board of directors has reason to believe that a takeover bid will be made. The contingency procedure should establish that the board of directors should not without the acceptance of the general meeting, attempt to counter the takeover bid by making decisions which, in reality, prevent the shareholders from deciding on the takeover bid themselves.

In August 2018, the Takeover Response Manual with procedures and guidance in the event of a takeover bid was updated and approved by the Board. According to this manual, the Board is not at any time entitled to take any steps that prevent a takeover bid from being presented to and decided by the shareholders.

In the event of a takeover bid, the Board will consider specifically what will be in the best interest of the company and all shareholders before they decide whether or not to present an offer to the shareholders.
## 2. Tasks and responsibilities of the board of directors

### 2.1. Overall tasks and responsibilities

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<td><strong>2.1.1.</strong> The committee recommends that at least once annually, the board of directors consider the matters that should be included in the board’s performance of its work.</td>
<td>The rules of procedure of the Board define the role and responsibilities of the Board and are reviewed annually to ensure that they are updated and compliant with applicable laws, regulations, and best practice. Furthermore, the Board once a year defines its most important tasks and decides on an annual plan – the annual wheel – for the following year.</td>
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<td><strong>2.1.2.</strong> The committee recommends that at least once annually, the board of directors consider the overall strategy of the company with a view to ensuring value creation in the company.</td>
<td>Once a year, the Board arranges a strategy seminar with participation of the members of the Executive Management to discuss the strategies and future visions for the Group. The latest strategy seminar took place in September 2018.</td>
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<td><strong>2.1.3.</strong> The committee recommends that the board of directors ensure that the company has a capital and share structure which supports that the strategy and long-term value creation of the company are in the best interest of the shareholders and the company, and that the board of directors explain this in the management commentary and/or on the company’s website.</td>
<td>The Board continuously evaluates to what extent the company’s capital structure, share structure, and capital resources are reasonable in consideration of the Group’s operations and the stakeholders’ interests. In April 2018, the shareholders:</td>
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<td>⋅ Approved a dividend of DKK 9.23 per share to be paid out for the financial year 2017. This was equivalent to a dividend percentage of 30.0 percent measured against the net profit for the year.</td>
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<td>⋅ Adopted the proposal to reduce Vestas’ share capital by DKK 9,800,944 nominally by cancelling 9,800,944 shares from Vestas’ holding of treasury shares.</td>
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On 3 May 2018, the reduction of the share capital was completed and Vestas’ registered share capital now amounts to DKK 205,696,003 nominally, corresponding to 205,696,003 shares of DKK 1 each. 

On 12 February 2018 and on 15 August 2018, the Board initiated new share buy-back programmes were initiated pursuant to the authorisation granted to the Board by the general meeting. The main purpose of the share buy-back programme was to adjust Vestas’ capital structure and secondly meet the obligations arising from share-based incentive programmes to employees of Vestas. They were completed on 3 May 2018 and 18 December 2018, respectively. In total, Vestas paid EUR 402m for 6,962,003 shares. 

Further information is available in the annual report 2018, see the section “Capital structure strategy”. |
<p>| <strong>2.1.4.</strong> The committee recommends that the board of directors annually review and approve guidelines for the executive board; this includes establishing requirements for the executive board’s reporting to the board of directors. | At least once a year, the Board reviews the rules of procedure for the Executive Management to ensure that it is updated and compliant with applicable laws, regulations, and best practice. The Rules of procedure for the Executive Management were last updated in connection with the board meeting in April 2018. |</p>
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<td>2.1.5. The committee recommends that at least once annually, the board of directors discuss the composition, developments, risks, and succession plans of the executive board.</td>
<td>In April 2018, the Nomination and Compensation Committee evaluated the Executive Management’s composition, development, risks, and succession plans.</td>
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<td>2.2. Corporate social responsibility</td>
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<tr>
<td>2.2.1. The Committee recommends that the board of directors adopt policies on corporate social responsibility.</td>
<td>As an international company, Vestas strives to act as a responsible social-minded company. It is therefore Vestas’ aim to carry out its activities in a way which has the least possible social and environmental impact on the surroundings in general. Vestas is a signatory to the United Nations Global Compact and the World Economic Forum’s Partnering Against Corruption Initiative. Vestas’ commitments are reflected in the Code of Conduct and supporting policies.</td>
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<td>2.3. Chairman and vice-chairman of the board of directors</td>
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<td>2.3.1. The committee recommends appointing a vice chairman of the board of directors, who will assume the responsibilities of the chairman in the event of the chairman’s absence, and who will also act as effective sparring partner for the chairman.</td>
<td>In accordance with article 8(2) of company’s Articles of association, the Board may decide to appoint a deputy chairman. The Board has appointed a deputy chairman who is an effective sparring partner for the chairman and will assume the responsibilities of the chairman in the event of the chairman’s absence. The Rules of procedure for the Board include a general description of the tasks, duties, and responsibilities of the chairman and the deputy chairman. Members of the Board must not perform duties for the company that are not an inherent part of their tasks with the exception of isolated tasks that they are requested to perform by and on behalf of the Board. The members of the Board did not perform any such isolated tasks in 2018. If decided by the Board that a member of the Board must participate in the day-to-day management, this decision will be disclosed in a company announcement.</td>
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3. Composition and organisation of the board of directors

3.1. Composition

3.1.1. The committee recommends that the board of directors annually evaluate and in the management commentary, account for:

- the competencies that it must have to best perform its tasks,
- the composition of the board of directors, and
- the special competencies of each member.

One time a year, the Board evaluates the competencies and composition of the Board, and each member of the Board.

Further information is available in the annual report 2018, see the section "Corporate governance".

3.1.2. The committee recommends that the board of directors annually discuss the company's activities to ensure relevant diversity at management levels and prepare and adopt a policy on diversity. The policy should be published on the company's website.

In November 2018, the Board discussed diversity – and approved a Diversity and Inclusion Policy which replaced the former Policy on Equality. The policy supports Vestas' efforts to create an environment that actively embraces diversity, inclusion, and one that ensures equal access to opportunities. The policy is available on the corporate website.

3.1.3. The committee recommends that the selection and nomination of candidates for the board of directors be carried out through a careful and transparent process approved by the overall board of directors. When assessing its composition and nominating new candidates, the board of directors should in addition to the need for competencies and qualifications take into consideration the need for integration of new talent and diversity.

The Board makes use of external consultants to identify and assess the profiles and qualifications specifically needed in order to supplement the expertise reflected in the overall composition of the Board.

The criteria used when nominating new candidates include gender and age, but without compromising the other recruitment criteria.

3.1.4. The committee recommends that the notice convening a general meeting where the agenda includes the election of members to the board of directors, of the nominated candidates, including information about the candidates' 

- other executive functions, including positions on executive boards, boards of directors, and supervisory boards, including board committees in Danish and foreign enterprises, and
- demanding organisational tasks.

Furthermore, it should be indicated if the candidates to be board of directors are considered independent.

The notice convening Vestas' annual general meeting in 2018 and the information at the corporate website contained a detailed description of each individual candidate, including information about age, position, education, former employment, other offices held in Danish and foreign companies and organisations, positions of trust, independence, and special competences.

3.1.5. The committee recommends that members of the company's executive board be not members of the board of directors and that a resigning chief executive officer be not directly elected as chairman or vice chairman for the same company.

Except for the employee representatives, no members of the Board elected by the general meeting have ever been employed by Vestas.

3.1.6. The committee recommends that members of the board of directors elected by the general meeting be up for election every year at the annual general meeting.

According to the company's Articles of association, board members elected by the general meeting are up for election every year at the company's annual general meeting.
### 3.2. Independence of the board of directors

#### 3.2.1. The committee recommends that at least half of the members of the board of directors elected by the general meeting be independent persons, in order for the board of directors to be able to act independently of special interests.

To be considered independent, this person may not:
- be or within the past five years have been a member of the executive board or senior staff member in the company, a subsidiary or an associated company,
- within the last five years, have received large emoluments from the company/group, a subsidiary or an associated company in a different capacity than as member of the board of directors,
- represent or be associated with a controlling shareholder,
- within the past year, have had significant business relations (e.g. personally or indirectly as partner or employee, shareholder, customer, supplier or member of management in companies with connection) with the company, a subsidiary or an associated company,
- be or within the past three years have been employed or been a partner in the company as the auditor elected by the general meeting,
- be the chief executive in a company with cross-memberships with the company,
- have been member of the board of directors for more than 12 years; or
- be a close relative of persons who are not considered independent.

Even if a member of the board of directors is not covered by the above criteria, certain conditions may exist that will lead the board of directors to decide that one or more members cannot be regarded as independent.

**According to the definition of an independent person as set out in the recommendation, all eight board members elected by the general meeting are independent.**

### 3.3. Members of the board of directors and the number of other management functions

#### 3.3.1. The committee recommends that each member of the board of directors assess the expected time commitment for each function so that the member does not take on more functions than he/she can complete at a satisfactorily level for the company.

Vestas believes that each board member is capable of assessing, in a satisfactory manner, the member’s time commitment for the board work and each function in order that the number of functions held will not adversely impact the quality of the work performed on Vestas’ Board.

The issue was discussed in connection with the annual evaluation of the Board’s work.

#### 3.3.2. The committee recommends that the management commentary, in addition to the provisions laid down by legislation, includes the following information about the members of the board of directors:
- the position of the relevant person,
- the age and gender of the person in question,
- the information set out in this recommendation is available in the annual report 2018, see the section “Corporate governance”.
Recommendation

- the person's competencies and qualifications that are relevant to the company,
- whether the member is considered independent,
- the member's date of appointment to the board of directors,
- expiry of the current election term,
- the member's participation in the meetings of the board of directors and committee meetings,
- other management functions, including memberships in executive boards, boards of directors, and supervisory boards, including board committees in Danish and foreign enterprises and demanding organisational tasks, and
- the number of shares, options, warrants and similar owned by the member in the company, and other group companies, as well as changes in the member's portfolio of the mentioned securities which have occurred during the financial year.

3.3.3. The committee recommends that the annual evaluation procedure, cf. section 3.5, include an evaluation of what is regarded as a reasonable level for the number of other management functions, where the number, level and complexity of the other individual management functions are taken into account.

Vestas' comments

The Nomination Committee has as part of the annual evaluation of the Board by an external partner included a consideration of the level of other management functions held by the members of the Board.

3.4. Board committees

3.4.1. The committee recommends that the company publish the following on the company's website:

- the terms of reference of the board committees,
- the most important activities of the committees during the year, and the number of meetings held by each committee, and
- the names of the members of each committee, including the chairmen of the committees, as well as information on which members are independent members and which members have special competencies.

The following information about the company's board committees is available at the corporate website:

- charter,
- composition,
- function,
- responsibilities,
- work methods, and
- number of meetings.

The purpose of Vestas' board committees is to prepare decisions, proposals for decisions, and recommendations for consideration and approval by the entire Board. The committees are not authorised to make independent decisions, but report to and make recommendations to the entire Board.

3.4.2. The committee recommends that a majority of the members of a board committee be independent.

According to the definition of independence of the Committee on Corporate Governance, Vestas' board committees comply with the recommendation.

3.4.3. The committee recommends that the members of the board of directors set up an audit committee and that a chairman is appointed who is not the chairman of the board of directors.

According to applicable Danish law and the Rules of procedure for the Board, Vestas has established an audit committee. A description of the committee's composition, responsibilities and work methods is available at the corporate website.

The committee members meet the requirements set out in this recommendation.
### Recommendation

3.4.4. The committee recommends that, prior to the approval of the annual report and other financial reports, the audit committee monitor and report to the board of directors about:

- significant accounting policies,
- significant accounting estimates,
- related party transactions, and
- uncertainties and risks, including in relation to the outlook for the current year.

In connection with the preparation of the company’s four financial reports in 2018, the Audit Committee reviewed the financial reports on the basis of the criteria set out in this recommendation and reported to the Board. However, noting that the duty and responsibility for evaluating uncertainties and risks in relation to outlook for the current year, is assigned to the combined Board.

3.4.5. The committee recommends that the audit committee:

- annually assess the need for an internal audit, and in such case, presents mandates and recommendations on selecting, appointing and removing the head of any internal audit function and on the budget of the internal audit function,
- ensure that if an internal audit has been established, a description of its functions is available and approved by the board of directors,
- ensure that if an internal audit has been established, adequate resources and competencies are allocated to carry out the work, and
- monitor the executive board’s follow-up on the conclusions and recommendations of the internal audit function.

Once a year, the Audit Committee assesses the need for an internal audit function. In the 2018 financial year, the Committee found that it was not necessary to establish an internal audit function.

3.4.6. The committee recommends that the board of directors establish a nomination committee, which is at least, responsible for the following preparatory tasks:

- describing the qualifications required by the board of directors and the executive board, and for a given position, indicating the time expected to be spent carrying out a specific position, as well as assessing the competencies, knowledge and experience found in the two governing bodies,
- annually assessing the structure, size, composition, and results of the board of directors and the executive board and recommend any changes to the board of directors,
- annually assessing the competencies, knowledge, experience, and succession of the individual members of management, and report to the board of directors in this respect,
- recommending candidates for the board of directors and the executive board, and
- proposing an action plan to the board of directors on the future composition of the board of directors, including proposals for specific changes.

The committee’s tasks relating to recommendations 3.4.6. and 3.4.7. are handled in a board committee termed Vestas’ Nomination & Compensation Committee. The Board has assessed that the committee members have the necessary competences to perform both tasks, and that this structure is optimal for Vestas. A description of the committee’s composition, tasks and work methods is available at the corporate website.

3.4.7. The committee recommends that the board of directors establish a remuneration committee which is at least, responsible for the following preparatory tasks:

- recommending the remuneration policy (including the “General Guidelines for incentive-based Remuneration) to the board of directors and the executive board for approval by the board of directors prior to approval by the general meeting,
- making proposals to the board of directors on remuneration for members of the board

The committee’s tasks relating to recommendations 3.4.6. and 3.4.7. are handled in a board committee named Vestas’ Nomination & Compensation Committee. The Board has assessed that the committee’s members have the necessary competences to perform both tasks, and that this structure is optimal for Vestas. A description of the committee’s composition, tasks and work methods is available at the corporate website.
Recommendation | Vestas' comments
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- of directors and the executive board, as well as ensuring that the remuneration is in compliance with the company’s remuneration policy and the assessment of the performance of the persons concerned. The committee should have information on total remuneration that members of the board of directors and the executive board receive from other companies in the group,
- recommending a remuneration policy applicable for the company in general, and
- assisting with the preparation of the annual remuneration report.

3.4.8. The committee recommends that the remuneration committee do not consult with the same external advisers as the executive board of the company.

According to the committee’s charter, the committee may choose the external advisers they believe have the best skills to assist the committee.

In 2018, the Nomination & Compensation Committee has not used the same advisers as the Executive Management.

3.5. Evaluation of the performance of the board of directors and the executive board

3.5.1. The committee recommends that the board of directors establish an evaluation procedure for an annual evaluation of the board of directors and the individual members. External assistance should be obtained at least every third year. The evaluation should inter alia include:

- contribution and results,
- cooperation with the executive board,
- the chairman’s leadership of the board of directors,
- the composition of the board of directors [including competencies, diversity and the number of members],
- the work in the committees and the committee structure, and
- the organisation and quality of the material that is submitted to the board of directors.

The Nomination & Compensation Committee has the responsibility of conducting an annual evaluation of:
- the contributions and results of the individual members of the Board – and the combined Board,
- the contributions and results of the individual members of the Executive Management – and the combined Executive Management, and
- the co-operation between the Board and the Executive Management.

The evaluation procedure and the general conclusions should be described in the management commentary and on the company’s website. The chairman should account for the evaluation of the board of directors, including the process and general conclusions, on the general meeting prior to the election of the board of directors.

The Chairman presents the result of the evaluation at a board meeting – and the result of the evaluation is discussed.

In October and November 2018, the three board committees evaluated their performance for 2018. The evaluations were conducted as an open dialogue among the members of the committees and facilitated internally by the chairmen. An evaluation form was made available to guide the members of the committees in their preparation and to make sure that all relevant issues were touched upon in connection with the evaluations.

An evaluation report is prepared for the three committees – comprising the result of the assessments. These reports are used by the Nomination & Compensation Committee when it proposes nomination of members to the Board and members of the board committees.

In 2019, an update of the evaluation procedure will be conducted by the Nomination and Compensations Committee and presented for approval at a board meeting.

Vestas has in November 2018 engaged with an external partner to undertake an external assessment of the Board as a result of changes made to the Danish Corporate Governance Code. Going forward Vestas will include external assistance to perform an evaluation of the Board at least every third year.
The main conclusions from the external partner is that Vestas has a Board with a clear understanding of current role and responsibilities. The external partner brings key recommendations for the Board to perform a skills audit to understand key capabilities required on the Board both now and in the future. The current capabilities among the members could be reviewed taking into account maintaining the diverse range of skills, experience and styles of Board members.

The Chairman should re-affirm expectations of each Board member specifically relating to the level of contribution and challenge expected during Board meetings and strategy sessions. It is recommended to allow the Board to monitor it’s performance on a more regular basis, with an on-going self-assessment tool.

### 3.5.2. The committee recommends that at least once annually, the board of directors evaluate the work and performance of the executive board in accordance with predefined clear criteria. Furthermore, the board of directors should evaluate the need for changes to the structure and composition of the executive board, in light of the company’s strategy.

Once a year, the Board evaluates the work and performance of the Executive Management. This evaluation takes place in a dialogue between the Nomination & Compensation Committee and the Group President & CEO, and the results of the evaluation are subsequently presented to the entire Board.

The evaluation is based on the following criteria, among others:
- the Group’s general performance;
- the Group’s reputation and position;
- implementation of the Group’s strategy;
- the Group’s financial targets;
- the customer satisfaction survey; and
- the employee satisfaction survey.

### 3.5.3. The committee recommends that the executive board and the board of directors establish a procedure according to which their cooperation is evaluated annually through a formalised dialogue between the chairman of the board of directors and the chief executive officer, and that the outcome of the evaluation be presented to the board of directors.

Once a year, the Nomination & Compensation Committee and the Group President & CEO evaluate the cooperation between the Board and the Executive Management.

The evaluation of the cooperation includes:
- the ongoing dialogue / information;
- board material;
- cooperation with the board committees;
- follow-up on management decisions and their implementation;
- evaluation of the processes and methods used, etc.

The evaluation of the cooperation was part of the evaluation performed by an external partner in November and December 2018. The result of this evaluation was presented to the Board at the board meeting in February 2019.
4. Remuneration of management

4.1. Form and content of the remuneration policy

**Recommendation**

4.1.1. The committee recommends that the board of directors prepare remuneration policy for the board of directors and the executive board, which includes:

- a detailed description of the components of the remuneration for members of the board of directors and the executive board,
- the reasons for choosing the individual components of the remuneration,
- a description of the criteria that form the basis for balance between the individual components of the remuneration, and
- an explanation for the correlation between the remuneration policy and the company's long-term value creation and relevant related goals.

The remuneration policy should be approved by the general meeting at least every fourth year and upon any material amendments and published on the company’s website.

4.1.2. The committee recommends that, if the remuneration policy includes variable components,

- limits be set on the variable components of the total remuneration package,
- a reasonable and balanced composition be ensured between remuneration for members of management and the value creation for shareholders in the long term,
- clarity be established about performance criteria and measurability for the award of variable components,
- it is ensured that variable remuneration not only consists of short term remuneration components, and that long-term remuneration components must have a vesting or maturity period of at least three years, and
- it be ensured that the company has the ability to reclaim in full or in part variable components of remuneration that were paid on the basis of information, which subsequently are found to be incorrect.

**Vestas' comments**

Vestas' statutory report on corporate governance 2018

Vestas’ remuneration policy includes a detailed description of the different elements included in the remuneration for the Board and the Executive Management. Included in the policy is the purpose of each remuneration element and an indication of the relative value of each element.

In the remuneration report that is part of the annual report 2018, it is described how the link to the strategy and short- and long-term priorities are ensured in the process of selecting and evaluating performance criteria. As described in the remuneration report, the Nomination and Compensation Committee is actively involved in the process of reviewing performance criteria to continuously ensure the link to Vestas strategy.

Vestas remuneration policy was last up for approval at the annual general meeting in 2016 and will be reviewed again in preparation for the annual general meeting in 2020.

Vestas offers its managers remuneration that includes both variable and fixed components. The process for selecting performance criteria and measurements is aligned to the ongoing process of strategy and goal setting in the company and is described as part of the annual remuneration report.

**Bonus programme**

Vestas’ annual bonus programme for all employees is based on clear and unambiguous financial targets and sub-targets. The targets are determined by the Board annually and distributed through general management communication and individually targeted communication. For all staff groups, the bonus programme has defined upper limits for payment, and no bonus is payable until the defined minimum EBIT criteria has been met.

**Incentive programme**

Vestas’ long-term restricted share-based incentive programme for the Executive Management and senior executives aims to ensure a direct linkage between senior management’s remuneration and the long-term value creation for the investors. The actual level of shares available for allocation and grant may range between 0 and 150 percent of the target level and is determined by Vestas’ performance in the three performance years. The vesting period of the share incentives is three years for half of the shares and five years for the remaining half of the shares.

Further information on the variable components of the remuneration policy can be found in the remuneration policy and the overall guidelines governing incentive pay.

The terms and conditions for the share-based incentive programme includes a claw-back. If parts of the share incentives are found to have been paid erroneously to members of the Executive Management, the company may in exceptional cases reclaim such variable components in full or in part, cf. the remuneration policy.
## Recommendation

| 4.1.3. | The committee recommends that remuneration of members of the board of directors do not include share options or warrants. |
| 4.1.4. | The committee recommends that if, in relation to long-term incentive programmes, a share-based remuneration is used, the programmes should have a vesting or maturity period of at least three years after being allocated and should be roll-over programmes, i.e. the options should be granted periodically. |
| 4.1.5. | The committee recommends that the total value of the remuneration relating to the notice period, including severance pay, do not exceed two years of remuneration, including all components of the remuneration. |

## Vestas' comments

| 4.1.3. | While disclosing the overall performance conditions related to the bonus programme and the share incentive programme, Vestas does not disclose the KPI details or targets, since this is considered confidential and strategic information only relevant for the selected employees to drive this performance. |
| 4.1.4. | Members of the Board receive a fixed annual cash remuneration, which is approved every year by the general meeting. Members of the Board receive no incentive remuneration. |
| 4.1.5. | Shares allocated vest at the rate of 50 percent after three years and the remainder five years after the announcement. The share incentives are based on roll-over programmes with recurring grants and overlap of vesting periods. |

## 4.2. Disclosure of the remuneration policy

| 4.2.1. | The committee recommends that the company’s remuneration policy and compliance with this policy be explained and justified annually in the chairman’s statement at the company’s general meeting. |
| 4.2.2. | The committee recommends that shareholders at the general meeting consider proposals for approval of remuneration for the board of directors for the current financial year. |
| 4.2.3. | The committee recommends that the company prepares a remuneration report that includes information on the total remuneration received by each member of the board of directors and the executive board from the company and other companies in the group and associated companies for the last three years, including information on the most important content of retention and resignation arrangements and that the correlation between the remuneration and company strategy and relevant related goals be explained. |

| 4.2.1. | At the company’s general meeting, the Chairman addresses the company’s remuneration policy and compliance with the policy. |
| 4.2.2. | The annual general meeting in 2018 approved the level of the Board’s remuneration for 2018, and it will be presented for final approval at the annual general meeting in 2019. |
| 4.2.3. | The remuneration report for the financial year 2018 is available at the corporate website. The report explains the link between the remuneration and the Remuneration Policy and the General Guidelines for Incentive Pay – and the correlation between the remuneration and the strategy. The base remuneration paid to members of the Board and members of the board committees is disclosed in the report. Remuneration paid to the Executive Management is disclosed as aggregated levels per element of remuneration. |

The Board believes that the information on remuneration disclosed in the remuneration report 2018 constitutes a reasonable balance between the need for openness about remuneration to the Board and the Executive Management and the need to secure confidentiality with regard to the remuneration paid to the individual members.
## 5. Financial reporting, risk management and audits

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<tr>
<th>Recommendation</th>
<th>Vestas’ comments</th>
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<tbody>
<tr>
<td><strong>5.1. Identification of risks and transparency about other relevant information</strong></td>
<td>The conditions stated in this recommendation are accounted for in the annual report 2018, see section “Risk Management”, ref, section 107b of the Danish Financial Statements Act.</td>
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### 5.1.1. The committee recommends that the board of directors consider and in the management commentary account for the most important strategic and business-related risks, risks in connection with the financial reporting as well as for the company’s risk management. |

The conditions stated in this recommendation are accounted for in the annual report 2018, see section “Risk Management”, ref, section 107b of the Danish Financial Statements Act.

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<th><strong>5.2. Whistleblower scheme</strong></th>
<th>Vestas has established a whistleblower scheme, called the EthicsLine.</th>
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The purpose of the scheme is to ensure that information is neither suppressed nor hidden, and it provides the company’s employees and business partners opportunity to file reports of any misconduct, irregularities or matters that are against Vestas’ policies and guidelines.

The Audit Committee monitors the development and implementation of Vestas’ ethics and anti-corruption programme pursuant to Vestas’ Code of Conduct.

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<th><strong>5.3. Contact to auditor</strong></th>
<th>The Board and Executive Management grant the auditor(s) elected by the general meeting access to make any investigations, they find necessary, and ensure that the auditor(s) receive the information and the assistance needed for them to exercise their duties.</th>
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The Board maintains a regular dialogue with the auditor(s) elected by the general meeting, however, it is the responsibility of the Audit Committee to make arrangements for the necessary exchange of information.

Furthermore, the Board assesses if and when it is relevant to meet with the auditor(s) with or without the Executive Management being present. In February 2018, the Board had a meeting with the auditor(s) without the Executive Management being present.

At the quarterly Audit Committee meetings where the financial reports are pre-approved, the Audit Committee meets with the auditor(s) without the Executive Management being present.

### 5.3.2. The committee recommends that the audit agreement and auditors’ fee be agreed by the board of directors and the auditor elected by the general meeting based on a recommendation from the audit committee.

The contractual basis and thereby the scope of the auditor’s work as well as the auditor’s fee is agreed between the Board and the auditor(s) based on a recommendation from the Audit Committee.

Any non-audit related services provided by the auditor(s) are agreed with Finance Management according to policy approved by the Audit Committee. Such non-audit services are reported to the Audit Committee and reviewed on a quarterly basis.

Moreover, the Board once a year determines the general framework for supply by the auditor(s) of non-audit related services in order to ensure independence on the part of the auditor(s) etc.